

## Federal Housing Finance Board

## § 956.3

46. *Termination Type*—Numeric indicator for whether the loan terminated in a prepayment, foreclosure, or other types of termination.

47. *ARM Index*—Index used for the calculation of interest on an ARM.

48. *ARM margin*—Margin added to the index for calculation of the interest on an ARM.

49. *Prepayment Penalty Terms*—Numeric indicator for types of prepayment penalties.

### PART 956—FEDERAL HOME LOAN BANK INVESTMENTS

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SOURCE: 65 FR 43985, July 17, 2000, unless otherwise noted.

#### § 956.1 Definitions.

As used in this part:

*Deposits in banks or trust companies* has the meaning set forth in § 965.1 of this chapter.

*Derivative contract* means generally a financial contract the value of which is derived from the values of one or more underlying assets, reference rates, or indices of asset values, or credit-related events. Derivative contracts include interest rate, foreign exchange rate, equity, precious metals, commodity, and credit contracts, and any other instruments that pose similar risks.

*Investment grade* means:

(1) A credit quality rating in one of the four highest credit rating categories by an NRSRO and not below the fourth highest credit rating category by any NRSRO; or

(2) If there is no credit quality rating by an NRSRO, a determination by a Bank that the issuer, asset or instrument is the credit equivalent of investment grade using credit rating standards available from an NRSRO or other similar standards.

*Repurchase agreement* means an agreement between a seller and a buyer whereby the seller agrees to repurchase

a security or similar securities at an agreed upon price, with or without a stated time for repurchase.

[67 FR 12853, Mar. 20, 2002]

#### § 956.2 Authorized investments.

In addition to assets enumerated in parts 950 and 955 of this chapter and subject to the applicable limitations set forth in this part, in the Financial Management Policy and in part 980 of this chapter, each Bank may invest in:

(a) Obligations of the United States;

(b) Deposits in banks or trust companies;

(c) Obligations, participations or other instruments of, or issued by, Fannie Mae or Ginnie Mae;

(d) Mortgages, obligations, or other securities that are, or ever have been, sold by Freddie Mac pursuant to section 305 or 306 of the Federal Home Loan Mortgage Corporation Act (12 U.S.C. 1454 or 1455);

(e) Stock, obligations, or other securities of any small business investment company formed pursuant to 15 U.S.C. 681(d), to the extent such investment is made for purposes of aiding members of the Bank; and

(f) Instruments that the Bank has determined are permissible investments for fiduciary or trust funds under the laws of the state in which the Bank is located.

65 FR 43985, July 17, 2000, as amended at 67 FR 12853, Mar. 20, 2002]

#### § 956.3 Prohibited investments and prudential rules.

(a) *Prohibited investments*. A Bank may not invest in:

(1) Instruments that provide an ownership interest in an entity, except for investments described in §§ 940.3(e) and (f) of this chapter;

(2) Instruments issued by non-United States entities, except United States branches and agency offices of foreign commercial banks;

(3) Debt instruments that are not rated as investment grade, except:

(i) Investments described in § 940.3(e) of this chapter;

(ii) Debt instruments that were downgraded to a below investment grade rating after acquisition by the Bank; or

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(4) Whole mortgages or other whole loans, or interests in mortgages or loans, except:

- (i) Acquired member assets;
- (ii) Investments described in § 940.3(e) of this chapter;
- (iii) Marketable direct obligations of state, local, or tribal government units or agencies, having at least the second highest credit rating from an NRSRO, where the purchase of such obligations by the Bank provides to the issuer the customized terms, necessary liquidity, or favorable pricing required to generate needed funding for housing or community lending;
- (iv) Mortgage-backed securities, or asset-backed securities collateralized by manufactured housing loans or home equity loans, that meet the definition of the term "securities" under 15 U.S.C. 77b(a)(1); and
- (v) Loans held or acquired pursuant to section 12(b) of the Act (12 U.S.C. 1432(b)).

(b) *Foreign currency or commodity positions prohibited.* A Bank may not take a position in any commodity or foreign currency. A Bank may participate in consolidated obligations denominated in a currency other than U.S. Dollars or linked to equity or commodity prices, provided that the Bank meets the requirements of § 966.8(d) of this chapter, and all other applicable requirements related to issuing consolidated obligations.

[65 FR 43985, July 17, 2000, as amended at 66 FR 8320, Jan. 30, 2001; 67 FR 12853, Mar. 20, 2002]

#### § 956.4 Risk-based capital requirement for investments.

Each Bank shall hold retained earnings plus general allowance for losses as support for the credit risk of all investments that are not rated by an NRSRO, or are rated or have a putative rating below the second highest credit rating, in an amount equal to or greater than the outstanding balance of the investments multiplied by:

- (a) A factor associated with the credit rating of the investments as determined by the Finance Board on a case-by-case basis for rated assets to be sufficient to raise the credit quality of the asset to the second highest credit rating category; and

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- (b) 0.08 for assets having neither a putative nor actual rating.

[65 FR 43985, July 17, 2000, as amended at 67 FR 12853, Mar. 20, 2002]

#### § 956.5 Authorization for derivative contracts and other transactions.

A Bank may enter into the following types of transactions:

- (a) Derivative contracts;
- (b) Standby letters of credit, pursuant to the requirements of part 960 of this chapter;
- (c) Forward asset purchases and sales;
- (d) Commitments to make advances; and
- (e) Commitments to make or purchase other loans.

[66 FR 8320, Jan. 30, 2001, as amended at 67 FR 12853, Mar. 20, 2002]

#### § 956.6 Use of hedging instruments.

(a) *Applicability of GAAP.* Derivative instruments that do not qualify as hedging instruments pursuant to GAAP may be used only if a non-speculative use is documented by the Bank.

(b) *Documentation requirements.* (1) Transactions with a single counterparty shall be governed by a single master agreement when practicable.

(2) A Bank's agreement with the counterparty for over-the-counter derivative contracts shall include:

- (i) A requirement that market value determinations and subsequent adjustments of collateral be made at least on a monthly basis;
- (ii) A statement that failure of a counterparty to meet a collateral call will result in an early termination event;
- (iii) A description of early termination pricing and methodology, with the methodology reflecting a reasonable estimate of the market value of the over-the-counter derivative contract at termination (standard International Swaps and Derivatives Association, Inc. language relative to early termination pricing and methodology may be used to satisfy this requirement); and